



SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-65699; File No. SR-ICC-2011-03)

November 7, 2011

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change to Adopt ICC's Enhanced Margin Methodology (the "Decomp Model")

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder<sup>2</sup> notice is hereby given that on November 4, 2011, ICE Clear Credit LLC ("ICC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared primarily by ICC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The ICC Decomp Model includes the following enhancements to the ICC margin methodology for Credit Default Swap ("CDS") Indices: replacing standard deviation with Mean Absolute deviation ("MAD") as a measure of spread volatility, use of an auto regressive process to obtain multi-horizon risk measures, expansion of spread response scenarios, introduction of liquidity requirements, and base concentration charges.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, ICC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

ICC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.<sup>3</sup>

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The enhancements effected by this proposed rule change have been reviewed and/or recommended by the ICC Risk Working Group, ICC Risk Committee, ICC Board of Managers, an independent third-party risk expert (Finance Concepts), the Federal Reserve Bank of New York and the New York State Banking Department. Implementation of these enhancements to the ICC risk methodology will result in a better measurement of the risk associated with clearing CDS Indices.

A fundamental aspect of the Decomposition Model is the recognition that the CDS Indices cleared by ICC are essentially a composition of specific Single Name CDS instruments. As a result of the decomposition of the CDS Indices, ICC will be able to (1) incorporate jump-to-default risk as a component of the risk margin associated with CDS Indices and (2) provide appropriate portfolio margin treatment between CDS Indices and offsetting CDS Single Name positions.

Incorporating jump-to-default risk as a component of the Decomposition Model will result in a better measurement of the risk associated with clearing CDS Indices.

Recognizing the highly correlated relationship between long-short positions in CDS Indices and the underlying CDS Single Name constituents of the CDS Indices will provide for fundamental and appropriate portfolio margin treatment. To date, ICC has not offered such fundamental and appropriate portfolio treatment strictly for operational reasons. However, on or

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<sup>3</sup> The Commission has modified the text of the summaries prepared by ICC.

about December 12, 2011, ICC will be operationally ready to offer such portfolio margining treatment with respect to its clearing participants' proprietary positions.

As noted above, the proposed change in the ICC margin methodology will provide appropriate portfolio margining treatment only with respect to ICC clearing participants' proprietary positions. The portfolio margining treatment will only be available to ICC clearing participants' proprietary positions because ICC does not currently clear CDS Single Names for customer-related transactions. Accordingly, currently, there are no customer-related positions that would qualify for portfolio margining treatment. ICC does not believe that the fact that the portfolio margining element of the proposed Decomp Model will apply only to a Clearing Participant's proprietary account raises an issue of unfair discrimination. Importantly, the portfolio margining aspect of the Decomp Model does not unfairly discriminate with respect to similarly situated participants because it is available to any participant for whom ICC is currently able to provide portfolio margin treatment. Again, ICC does not currently offer clearing in CDS Single Names for customer-related transactions. In the event that ICC makes CDS Single Name clearing available for customer-related transactions and provided that the SEC and CFTC grant the requisite approval as discussed below, ICC will offer portfolio margining with respect to customer-related transactions. The proposed rule amendments are not designed to permit unfair discrimination among participants in the use of ICC's clearing services. ICC is not discriminating among proprietary participants or among customers. Proprietary accounts are not subject to the SEC's customer protection rules and thus are not subject to the same restrictions that the SEC has imposed on customer accounts. Specifically, ICC clears proprietary CDS Index and CDS Single Name positions in the same commingled house account origin. Whereas, as customer-related positions in CDS Indices and CDS Single Names must be maintained, as a

matter of law, in separate accounts. Thus, ICC is unable to commingle and portfolio margin customer-related CDS Index and CDS Single Name positions without the SEC's and CFTC's approval of ICC's pending petitions.

On or about November 7, 2011, ICC formally filed with the SEC a petition to provide portfolio margining treatment for customer-related positions (the "Customer-related Portfolio Margining Request") in anticipation of ICC offering clearing of CDS Single Names for customer-related transactions in the future. The Customer-related Portfolio Margining Request is posted on the ICC website and will be posted on the SEC's website.<sup>4</sup> In short, the Customer-related Portfolio Margining Request, if granted by the SEC, would provide all customers with the same portfolio margining treatment that is being proposed in this submission for the proprietary accounts. However, in order to obtain portfolio margining treatment for customers, ICC was required to file the separate Customer-related Portfolio Margining Request. Although the SEC has not published ICC's Customer-related Portfolio Margining Request for public comment, the SEC is interested in receiving comments from the public.

ICC believes that the proposed rule change will facilitate the prompt and accurate settlement of security-based swaps and contribute to the safeguarding of securities and funds associated with security-based swap transactions. As discussed above, ICC does not believe that the portfolio margining-related proposed changes raise an issue of unfair discrimination in the use of ICC's clearing services by similarly situated participants.

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<sup>4</sup> Available at: [https://www.theice.com/publicdocs/globalmarketfacts/docs/legislativecomments/ICC\\_Commingling\\_PortfolioMargining\\_Petitions.pdf](https://www.theice.com/publicdocs/globalmarketfacts/docs/legislativecomments/ICC_Commingling_PortfolioMargining_Petitions.pdf). The petition also will be available on the Commission's public website at: <http://www.sec.gov/rules/petitions.shtml>.

(B) Self-Regulatory Organization's Statement on Burden on Competition

ICC does not believe the proposed rule change would have any impact, or impose any burden, on competition.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments relating to the proposed rule change have not been solicited or received. ICC will notify the Commission of any written comments received by ICC.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove the proposed rule change or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>) or

Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-ICC-2011-03 on the subject line.

Paper Comments:

Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-ICC-2011-03. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filings will also be available for inspection and copying at the principal office of ICC and on ICC's website at [https://www.theice.com/publicdocs/regulatory\\_filings/ICEClearCredit\\_110411.pdf](https://www.theice.com/publicdocs/regulatory_filings/ICEClearCredit_110411.pdf).

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ICC-2011-03 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>5</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>5</sup> 17 CFR 200.30-3(a)(12).